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SUBJECT: CENTRAL BANK GOVERNOR ON POST-ELECTION TASKS,
INCLUDING KEEPING THE CARETAKER GOT HONEST

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11. (SBU) Summary: In a October 30 meeting, Central Bank Governor Serdengecti told us he and Treasury U/S Oztrak have prepared a document to give to the election winners which explains in non-technical terms the GOT's commitments to the IMF and why they should be honored. The length of the education period with the new GOT depends on who is the new Economy Minister (and obviously Serdengecti hopes it's Dervis.) He is also focused on working with the caretaker GOT during the transition period to make sure that it takes the necessary measures in November to keep the program on track. He is concerned that the lame duck GOT will have little incentive in the post-election period to implement the fiscal measures it agreed to with the IMF, to the meet the 6.5 percent of GNP primary surplus target for the year. End Summary.

Post-Election Mission: Educate the New GOT

12. (SBU) Serdengecti said he and Treasury Undersecretary Faik Oztrak have prepared a document to give to the winners of the election. It describes in non-technical terms the GOT commitments under the existing letter of intent to the IMF. It stresses the need to continue with these commitments, and explains why this is both necessary and urgent. He previewed the document to the Central Bank's newly formed Monetary Policy Council (includes Treasury and academics as well as CenBank officials).

13. (SBU) "Our job will be easier if CHP is in the government and Dervis gets the Economy Minister portfolio," Serdengecti continued. "We can start working right away with Dervis on next year's program. We won't have to wait for parliament to convene. But the education period will be longer with others." Serdengecti commented that other possible ministerial candidates in a AKP-CHP coalition are known not to be market friendly - he singled out AKP's Ali Coskun and CHP's Yakup Kepenek. "If they put forth names like this, the markets will react and will pay a higher price in terms of higher interest rates," Serdengecti opined. Serdengecti said he understood that AK had some younger officials who were market-oriented and could be educated quickly. He commented negatively about DYP's Ciller ("she doesn't know what she's talking about on the economy") and on the "deep-down isolationist" MHP.

14. (SBU) Asked whether senior USG visits in the post-election period would help him reinforce the reform points, Serdengecti demurred. "Give us some time to educate them first." Serdengecti surmised that this initial period could last until mid-December.

Dealing With the Caretaker GOT

15. (SBU) In the meantime, Serdengecti is also concerned with the post-election policies of the existing GOT. For instance, the GOT, which had fallen somewhat off track on its primary budget surplus target, must implement certain measures in November in order to meet the year-end fiscal targets. Most important is raising the prices of goods controlled by public sector companies (tobacco, spirits, oil products among others). Serdengecti is concerned that the lame duck GOT will have little incentive to take these unpopular measures.

16. (SBU) Serdengecti explained that delaying the fiscal

measures will also affect inflation targets. If the GOT delays public sector prices increases until 2003, then year-end 2002 inflation will be below target. However, this comes at a high cost in terms of reducing the primary surplus for 2002 and pushing inflationary pressures into 2003. In that case, the GOT might have to revise the year-end 2003 inflation target from 20 to 25 percent consumer price index increase. This would in turn affect inflationary expectations. A year-end 25 percent target may appear to the public as little to no decrease, making it more difficult to get the private sector to continue lowering expectations.

17. (SBU) On the 2003 inflation target, he said there are three unpredictable variables: agricultural prices (which depend to some extent on weather and growing seasons); energy prices (even without an external regional shock); and "slow adaptation of the public sector."

18. (SBU) Comment: Serdengeçti appears committed to staying on and working with the new GOT. His concerns with educating the new GOT are mirrored in what we are hearing from the private sector. The elections will result in reduced political uncertainty, which should further encourage the local capital markets. But, soon after the elections, the focus will be on how soon the new government gets formed and continues the hard work of economic reforms.

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